

Message Text

UNCLASSIFIED

PAGE 01 BONN 08085 01 OF 03 102320Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /110 W
-----110043Z 125077 /73

R 101744Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8158
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 08085

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 9)

REF.: BONN 7166, BONN 1012 AND BONN 2120

1. BUNDESRAT DISAPPROVES THE GOVERNMENT'S 1978 TAX
PACKAGE:
THE OPPOSITION-CONTROLLED BUNDESRAT HAS DISAPPROVED
THE GOVERNMENT'S 1978 TAX PACKAGE, THUS CONFIRMING
WIDE-SPREAD ASSUMPTIONS THAT THE BILL DOES NOT STAND A
CHANCE OF PASSAGE IN ITS PRESENT FORM. '
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 08085 01 OF 03 102320Z

2. FEDERAL AND STATE GOVERNMENT CHIEFS APPROVE PUBLIC
INVESTMENT PROGRAM:
THE DM 16 BILLION MEDIUM-TERM INVESTMENT PROGRAM HAS
RECEIVED THE NECESSARY UNANIMOUS APPROVAL DURING A
MEETING OF THE FEDERAL AND STATE GOVERNMENT CHIEFS ON
MAY 6. THE DETAILS AND ADMINISTRATIVE AGREEMENTS RE-

QUIRED FOR IMPLEMENTATION ARE TO BE SIGNED SOON. DURING THE MEETING, THE PARTICIPANTS REAFFIRMED THE INTENTIONS TO SPEND THE FUNDS INVOLVED EXCLUSIVELY FOR NEW, ADDITIONAL PROJECTS. THE FEDERAL GOVERNMENT STRESSED THE NEED FOR AN EARLY START TO EXERT A STIMULATING IMPACT ON THE ECONOMY ALREADY THIS YEAR. APPROVAL OF EXPENDITURES AND COMMITMENT AUTHORITY UNDER THE PROGRAM FOR 1977 BY FEDERAL AND STATE LEGISLATURE IS GENERALLY TAKEN FOR GRANTED.

3. MONEY MARKET:

MONEY MARKET RATES EASED IN THE FRG DURING THE PAST WEEK. CALL MONEY, FOR THE FIRST TIME IN SINCE MID-FEBRUARY, IS BEING QUOTED AT AN INTEREST RATE BELOW THE 4.5 PERCENT LOMBARD RATE AND ONE AND THREE MONTH FUNDS HAVE ALSO BECOME CHEAPER. MAJOR FACTORS IN THIS TREND ARE THAT BANKS ARE NOT SUBJECT TO SPECIAL TIGHTENING FACTORS IN EITHER APRIL OR MAY, I.E., NO MAJOR TAX DATES, AND THEREFORE HAVE BEEN ABLE TO REPAY A SUBSTANTIAL PORTION OF THEIR BORROWINGS (SEE PARA 8) FROM THE LOMBARD FACILITY. IN ADDITION, BANKS HAD BUILT UP THEIR HOLDINGS OF RESERVES AT THE BUNDESBANK TO DM 49.0 BILLION AT THE END OF APRIL IN ORDER TO MEET THEIR AVERAGE DAILY RESERVE REQUIREMENTS IN APRIL OF DM 46.7 BILLION. THUS, THE BANKING SYSTEM HAD SURPLUS RESERVES AT THE START OF MAY. THE CURRENT PROGNOSIS IN GERMAN FINANCIAL CIRCLES IS THAT THIS TREND TOWARDS LOWER INTEREST RATES WILL CONTINUE WITH PERHAPS CALL MONEY RATES EVENTUALLY COMING CLOSE TO THE 3.5 PERCENT RE-

UNCLASSIFIED

PAGE 03 BONN 08085 01 OF 03 102320Z

DISCOUNT RATE. FRANKFURT INTERBANK RATES DURING THE REPORTING PERIOD DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

MAY 2	4.4-4.5	4.50	4.60
3	4.3-4.4	4.45	4.55
4	4.0-4.3	4.40	4.50
5	4.0-4.2	4.40	4.50
6	4.0-4.3	4.40	4.50
9	4.1-4.3	4.40	4.50

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 08085 02 OF 03 102327Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 ABF-01
AGR-10 /121 W

-----110045Z 125284 /73

R 101744Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8159
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 03 BONN 08085

4. FOREIGN EXCHANGE MARKET:
IN AN ATMOSPHERE OF UNCERTAINTY IN THE DAYS LEADING UP
TO THE LONDON SUMMIT COMPOUNDED BY RUMORS OF YET ANOTHER
SNAKE CURRENCY PARITY ADJUSTMENT, THE DOLLAR CONTINUED
TO WEAKEN AGAINST THE DEUTSCHEMARK THROUGH MID-DAY MAY 6.
SUBSEQUENTLY, HOWEVER, PRESSURES HAVE WORKED IN THE
OPPOSITE DIRECTION AND CURRENTLY THE DOLLAR IS TRADING
AT ABOUT DM 2.36 TO \$1 AS COMPARED TO FRIDAY'S FIXING
OF DM 2.3479 TO \$1. DURING THE REPORTING PERIOD, FRANK-
FURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 08085 02 OF 03 102327Z

FORWARD DOLLARS
SPOT DOLLARS (IN PCT. PER ANNUM)
OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

MAY 3	2.3575	2.3576	2.3470	-1.4	-1.4
4	2.3580	2.3533	2.3470	-0.9	-1.2
5	2.3470	2.3485	2.3485	-1.5	-1.2
6	2.3480	2.3479	2.3590	-1.5	-1.4
9	2.3575	2.3601	2.3590	-1.5	-1.4
10	2.3568	2.3598	N.A.	N.A.	N.A.

5. DM 500 MILLION CREDIT FOR SPAIN:

ACCORDING TO THE PRESS, A GERMAN BANKING CONSORTIUM UNDER THE LEADERSHIP OF THE WESTDEUTSCHE LANDESBANK IS CURRENTLY ORGANIZING A DM 500 MILLION CREDIT FOR SPAIN. THE ANTICIPATED MATURITY IS 8 YEARS, THE INTEREST RATE IS NOT YET KNOWN.

6. BUNDESBANK 1976 LOSS:

ACCORDING TO THE INCOME STATEMENT PUBLISHED IN ITS 1976 ANNUAL REPORT, THE BUNDESBANK LOST DM 3.0 BILLION IN 1976. BUNDESBANK EXPENSES AMOUNTED TO DM 8.8 BILLION, THE MAJOR ITEM OF WHICH WAS A DM 7.5 BILLION WRITE DOWN OF THE VALUE OF THE BUNDESBANK'S MONETARY RESERVES. THIS ADJUSTMENT BASICALLY REFLECTS THE 11 PERCENT REVALUATION OF THE DEUTSCHEMARK AGAINST THE DOLLAR IN THE COURSE OF 1976. (THE VALUATION OF THE BUNDESBANK'S GOLD HOLDINGS REMAINED UNCHANGED AT \$42.2 PER OUNCE - SEE BONN 1012.) BUNDESBANK RECEIPTS IN 1976 WERE DM 5.8 BILLION INCLUDING DM 4.4 BILLION OF INTEREST RECEIPTS ON INVESTMENTS ABROAD (MAINLY INVESTMENT OF BUNDESBANK MONETARY RESERVES IN THE U.S.). THE BUNDESBANK'S 1976 LOSS HAS BEEN CARRIED FORWARD INTO 1977.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 BONN 08085 02 OF 03 102327Z

7. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD APRIL 24-30 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED DM 0.1 BILLION TO TOTAL DM 85.5 BILLION. FOREIGN EXCHANGE HOLDINGS ROSE DM 100 MILLION BUT SDR HOLDINGS DECLINED DM 14 MILLION. LIABILITIES AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION INCREASED DM 151 MILLION WHILE OTHER FOREIGN LIABILITIES DECLINED BY ABOUT DM 165 MILLION.

8. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 1.6 BILLION. THE BASIC FACTOR INCREASING LIQUIDITY WAS A DM 7.0 BILLION DECLINE IN OFFICIAL ASSETS HELD AT THE BUNDESBANK. (FEDERAL GOVERNMENT ASSETS DECLINED BY DM 4.1 BILLION TO DM 2.6 BILLION AND STATE GOVERNMENT ASSETS BY DM 4.4 BILLION TO DM 3.7 BILLION. ASSETS OF OTHER PUBLIC AUTHORITIES INCREASED BY DM 1.5 BILLION.)

OTHER FACTORS INCREASING LIQUIDITY WERE DM 0.2 BILLION IN REDEMPTIONS OF MONEY MARKET PAPER AT THE BUNDESBANK, THE ABOVE-MENTIONED DM 0.1 BILLION INCREASE IN THE BUNDESBANK'S FOREIGN POSITION AND OTHER NON-SPECIFIED FACTORS (DM 0.5 BILLION, NET). LIQUIDITY WAS REDUCED BY THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 3.7 BILLION) AND A DM 2.5 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK TO MEET APRIL RESERVE REQUIREMENTS.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY DM 2.7 BILLION. AT THE SAME TIME, THEY INCREASED BORROWINGS UNDER THE SPECIAL RE-DISCOUNT FACILITY BY DM 1.1 BILLION. ON APRIL 30, THE BANKS' REDISCOUNT BORROWINGS AMOUNTED TO DM 17.9 BILLION, LOMBARD BORROWINGS TO DM 1.5 BILLION AND BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY TO DM 5.2 BILLION. THUS, ON APRIL 30, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 24.6 BILLION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 BONN 08085 02 OF 03 102327Z

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 BONN 08085 03 OF 03 102324Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 ABF-01
AGR-10 /121 W

-----110045Z 125235 /73

R 101744Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8160
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON

AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

UNCLAS SECTION 03 OF 03 BONN 08085

9. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS A WAIT-AND-SEE ATTITUDE HAS EVOLVED. THE FEDERAL RAILWAYS LOAN OFFERED ON APRIL 28 (SEE BONN 7166) IS REPORTEDLY NOT YET FULLY PLACED. THE NEXT DOMESTIC BOND ISSUE WILL BE A DM 150 MILLION ISSUE OF THE VEREINIGTE ELEKTRIZITAETSWERKE WESTFALEN A.G. (VEW -- COUPON 6 3/4 PERCENT, ISSUE PRICE 100, MATURITY 15 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS). THE VEW BORROWING IS THE SECOND ISSUE OF A DOMESTIC INDUSTRIAL FIRM IN 1976. THE FIRST WAS A UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BONN 08085 03 OF 03 102324Z

DM 150 MILLION ISSUE OF THE GERMAN STEEL FIRM THYSSEN OFFERED ON FEBRUARY 7 (SEE BONN 2120). THE THYSSEN ISSUE WAS THE FIRST ISSUE BY A DOMESTIC INDUSTRIAL FIRM IN MORE THAN 4 YEARS.

ON THE MARKET FOR NEWLY ISSUED FOREIGN DM BONDS THE FOLLOWING ISSUES WERE OFFERED DURING THE PERIOD UNDER REVIEW: BRAZIL: DM 150 MILLION, COUPON 7 3/4 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS; ARBED FINANCE, LUXEMBOURG: DM 100 MILLION, 6 3/4 PERCENT, 10 YEARS; DEN NORSKE INDUSTRIEBANKEN: DM 50 MILLION, 6 3/4 PERCENT, 12 YEARS WITH REPAYMENT TO BEGIN AFTER 2 YEARS.

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

THE FEDERAL STATISTICAL OFFICE'S PRELIMINARY CONSUMER PRICE ESTIMATES FRO APRIL 1977 HAVE BEEN REVISED. THE RATE OF INCREASE OVER APRIL 1976 IS NOW PLACED AT 3.8 PERCENT RATHER THAN THE PRELIMINARY 3.7 PERCENT REPORTED IN BONN 7649. LABOR MARKET DEVELOPMENTS IN APRIL WERE REPORTED IN BONN 7692. PRELIMINARY INDUSTRIAL PRODUCTION AND ORDER VOLUME DATA ARE CONTAINED IN BONN 8008. STOESEL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BONDS, CENTRAL GOVERNMENT TAXES, CENTRAL LEGISLATURE, LEGISLATIVE BILLS, INVESTMENTS, ECONOMIC REPORTS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Sent Date: 10-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN08085
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770164-1262
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770576/aaaacnjw.tel
Line Count: 328
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 875bc397-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BONN 7166, 77 BONN 1, 77 BONN 212
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2588712
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 9)
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/875bc397-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009